

Message Text

UNCLASSIFIED

PAGE 01 ROME 03732 191011Z

15

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01

SAJ-01 /178 W

----- 008530

P R 190920Z FEB 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 3797

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

UNCLAS ROME 3732

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: ITALY RAISES DISCOUNT RATE TO 9 0/0

REF.: (A) ROME 9900 OF SEPTEMBER 19, 1973

(B) ROME A-09 OF JANUARY 7, 1974

(C) ROME 1758 OF FEBRUARY 6, 1974

(D) ROME 7482 OF JULY 27, 1973

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ROME 03732 191011Z

1. /SUMMARY./ BANK OF ITALY RAISED BASIC DISCOUNT RATE

AND INTEREST RATE ON BOI ADVANCES FROM 6.5 0/0 TO 9.0 0/0
EFFECTIVE MARCH 20. MEASURE REFLECTS RISING INTEREST
RATES IN ITALY AND ABROAD AND IS AIMED AT FIGHTING DOMESTIC
INFLATION AND IMPROVING ITALY'S BALANCE OF PAYMENTS. /END SU-
MMARY./

2. BANK OF ITALY RAISED BASIC DISCOUNT RATE AND INTEREST
RATE ON ORDINARY BOI ADVANCES ON CURRENT ACCOUNT AND ON
FIXED-TERM "LOMBARDI" ADVANCES FROM 6.5 0/0 TO 9.0 0/0.
PENALTY RATES OF MAXIMUM OF 3 0/0 ADDITIONAL REMAIN UNCHANGED
(SEE REFS A AND B).

3. ITALIAN AUTHORITIES ANNOUNCED THAT MEASURE WAS DESIGNED TO
ALIGN ITALY'S DISCOUNT RATE WITH THAT IN OTHER EC COUNTRIES
IN ORDER TO FACILITATE EC MONETARY COOPERATION AND TO STRENGTHEN
ITALY'S BALANCE OF PAYMENTS. INCREASE WOULD ALSO CONFORM TO
POLICY SPELLED OUT IN ITALY'S DRAFT LETTER OF INTENT TO IMF.
RECENT RISE IN DOMESTIC INTEREST RATES HAD MADE BORROWING FROM
CENTRAL BANK INCREASINGLY ATTRACTIVE SO THAT DISCOUNT RATE
HAD LOST ITS RATIONING EFFECT. COMMERCIAL BANKS' PRIME RATE,
WHICH WAS RECENTLY INCREASED BY BANK CARTEL TO 11 0/0 (SEE
REF C), HAS CONTINUED TO RISE TO 11.5 0/0 AND EVEN 12.5 0/0.
AUTHORITIES EXPECT THAT HIGHER SHORT-TERM INTEREST RATES IN
ITALY WILL MAKE FOREIGN BORROWING BY COMMERCIAL BANKS RE-
LATIVELY MORE ATTRACTIVE, WILL LIMIT INCENTIVE TO CAPITAL FLIGHT
AND MAY FORCE DISHOARDING OF STOCKS OF IMPORTED GOODS, ALL OF
WHICH WOULD HELP TO STRENGTHEN BALANCE OF PAYMENTS.

4. FINANCIAL PRESS SUGGESTS THAT NEW MEASURE IS IMPLICIT
ACKNOWLEDGMENT OF FAILURE OF SELECTIVE CREDIT CONTROLS AND
OPERATION "TWIST" AND OF NEED TO ADOPT ACROSS-THE-BOARD TIGHTE-
NING OF CREDIT. PRESS SUGGESTS THAT COMMERCIAL BANKS MAY NOT
BE ABLE TO CONFORM TO SELECTIVE CREDIT LIMIT OF 12 0/0 INCREASE
IN BANK CREDIT TO LARGE CLIENTS BY MARCH 31 DEADLINE (REF D)
AND THAT BANK OF ITALY IS FINDING IT INCREASINGLY DIFFICULT TO
KEEP LONG-TERM RATES DOWN BY SUPPORT OF BOND MARKET. GIVEN
CONTINUE DIFFICULTY IN MANIPULATION OF FISCAL POLICY, MAINLY
THROUGH REDUCTION IN CASH BUDGET EXPENDITURES, ANTI-INFLATION
BURDEN IS ONCE AGAIN FALLING ON MONETARY PLICY.VOLPE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DISCOUNT (CURRENCY), PRIME INTEREST RATES, CREDIT CONTROLS, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME03732
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740224/aaaaawmo.tel
Line Count: 99
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: : (A) ROME 9900 OF SEPTEMBER 19, 197, 3
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 08 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 MAR 2002 by elbezejf>; APPROVED <03 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALY RAISES DISCOUNT RATE TO 9 0/0
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005